



November 18, 2020

Ms. Christine Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th floor
P.O. Box 2319
Toronto, ON M4P 1E4

Re: Alectra Utilities Corporation (Alectra) - 2021 Electricity Distribution Rates Application – ICM Requests
AMPCO Final Submissions
Board File No. EB-2020-0002

Dear Ms. Long:

Attached please find AMPCO's final submissions in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Regards,

A handwritten signature in blue ink, appearing to read "Colin Anderson".

Colin Anderson
President
Association of Major Power Consumers in Ontario

Copy to: Alectra Utilities Corporation

EB-2020-0002
Alectra Utilities Corporation

**Application for electricity distribution rates and other
charges effective January 1, 2021**

AMPCO Final Submissions
November 18, 2020

Alectra Utilities Corporation (Alectra Utilities) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 17, 2020 under section 78 of the Ontario Energy Board Act, 1998 seeking approval for changes to its electricity distribution rates, to be effective January 1, 2021.

Alectra's proposed 2021 rates are based on 2020 rates adjusted by the OEB's Price Cap Index Adjustment Mechanism formula (Price Cap IR). The Incremental Capital Module (ICM) funding is available to electricity distributors opting for Price Cap IR. As part of this application, Alectra Utilities seeks an ICM in the Brampton and PowerStream Rate Zones (RZs) through distribution rate riders effective January 1, 2021. AMPCO's submissions are focussed on Alectra Utilities ICM requests.

Incremental Capital Module (ICM)

Alectra Utilities application includes three ICM requests as follows:

ICM#	ICM Description	Rate Zone	Gross	Contribution	Capital	Forecast IS Date
1	Connection and Cost recovery Agreement ("CCRA") payment due to Hydro One Networks Inc. ("HONI") in 2021 - Goreway Transformer Station ("TS") 10-year true up payment	Brampton	\$5,682,220		\$5,682,220	Q2/Q3 2021
2	Goreway Road Widening project	Brampton	\$3,245,197	(\$1,155,000)	\$2,090,197	Q4 2021
	Total Brampton RZ		\$8,927,417	(\$1,155,000)	\$7,772,417	
3	Rutherford Road Widening project	PowerStream	\$4,425,574	\$1,540,000	\$2,885,574	Q3 2021
	Total PowerStream RZ		\$4,425,574	\$1,540,000	\$2,885,574	
	Total				\$10,657,991	

AMPCO's Position

For the reasons discussed below, AMPCO's position is that the Goreway TS CCRA 10-year true up payment to HONI, and the two Road Widening projects (Goreway Road and Rutherford Road) are ineligible for incremental capital funding and the OEB should not approve Alectra's three ICM funding requests.

Background

Alectra Utilities filed its first Distribution System Plan (DSP) in its EB-2019-0018 application where Alectra Utilities sought \$265 million in incremental capital funding through a new incremental capital funding mechanism called the MAADs-factor (M-Factor) over the 2020-2024 period to execute a total of 203 M-Factor projects. The OEB denied Alectra Utilities' M-Factor proposal in part because it found that it would be both unjust and unreasonable to expect ratepayers to fund virtually all of the "unfunded" capital costs in the DSP, while permitting Alectra Utilities' shareholders to receive all of the merger related savings until its next rebasing.¹ Of the options provided by the OEB in its Decision, Alectra Utilities did not amend the 2020 application to request incremental capital funding in 2020 for projects that meet the ICM criteria. Alectra Utilities is requesting incremental capital funding through an ICM for 2021 rates.²

The DSP filed in EB-2019-0018 forecast a capital budget of \$280.2 million in 2021. In this application, Alectra Utilities has reduced its 2021 capital budget forecast from \$280.2 million to \$250.3 million³, a reduction of approximately \$30 million. Alectra Utilities indicates the final budget reflects reductions to the capital budget as a result of the OEB's M-Factor Decision.⁴

ICM Criteria

The ICM is intended to address the treatment of a distributor's capital investment needs that arise during the rate-setting plan that are incremental to a materiality threshold. The ICM is available for discretionary and non-discretionary projects. The ICM is also available for capital projects that were not included in the distributor's last filed Distribution System Plan.

The requested amount for an ICM claim must be incremental to a distributor's capital requirements within the context of its financial capacities underpinned by existing rates and satisfy the eligibility criteria of *materiality, need and prudence*.⁵

Materiality

- A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing.
- Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget.

Need

¹ EB-2019-0018 PARTIAL DECISION AND ORDER P24

² EB-2019-0018 PARTIAL DECISION AND ORDER P27

³ AMPCO-1

⁴ AMPCO-1

⁵ Filing Requirements For Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications – Chapter 3 P26-27

The distributor must pass the Means Test (as defined in the ACM Report). The ICM is not available for incremental funding if a distributor's regulated return exceeds 300 basis points above the deemed return on equity embedded in the distributor's rates. Alectra Utilities' Alectra Utilities' 2019 achieved ROE of 7.21% was 174 basis points lower than the deemed ROE of 8.95%.⁶ Alectra Utilities meets the Means Test.

Amounts must be based on discrete projects, and should be directly related to the claimed driver. The amounts must be clearly outside of the base upon which the rates were derived.

Prudence

The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

AMPCO does not oppose the need for any of the ICM requests and does not conclude that the planned spending is imprudent. However, its AMPCO's view that the three ICM requests are ineligible for ICM funding.

Eligibility of ICM Requests

Alectra Utilities calculated the following materiality thresholds for the two rate zones with ICM requests as follows:

- Brampton RZ has a maximum eligible incremental capital amount of \$10,661,703.⁷
- PowerStream RZ has a maximum eligible incremental capital amount of \$22,435,002.⁸

AMPCO submits it is no longer appropriate for Alectra Utilities to calculate ICM materiality thresholds by rate zone, now that Alectra Utilities has filed a DSP on an integrated basis for its entire service territory. Previously Alectra Utilities' capital investment plans were established on an individual basis for each of its five rate zones, corresponding to each of the predecessor utility service territories. The latest DSP is for the system as a whole with capital investments that support operating as a single entity. Alectra Utilities calculated an aggregate materiality threshold across all of its RZs as part of its M-Factor Application.⁹ An aggregate materiality threshold should be used in this application. In response to 2-EP-1, Alectra Utilities calculates the materiality threshold for Alectra Utilities as a whole as \$214,566.¹⁰ Based on an updated \$250.3 million capital budget forecast for 2021, AMPCO calculates \$35.8 million¹¹ as the maximum eligible incremental capital amount.

The three projects totalling \$10.7 million are within the OEB's acceptable range and satisfy the first part of the materiality threshold test, but on an individual basis the two Road Widening project amounts are minor compared to the overall capital budget and in AMPCO's view do not pass the second materiality test. With respect to previous ICM requests by Alectra Utilities, the OEB determined it will consider whether each capital project proposed for an ICM is significant with respect to Alectra Utilities' total

⁶ 1-BOMA-2

⁷ Exhibit 2 Tab 1 Schedule 1 P4

⁸ Exhibit 2 Tab 1 Schedule 1 P13

⁹ EB-2019-0018 OEB Decision P9

¹⁰ 2- EP-1 (b)

¹¹ \$250.3 million - \$214.5 million

capital budget, not with respect to the capital budget by rate zone. The Goreway TS 10-year true up payment, the Goreway Road Widening project and the Rutherford Road Widening project represent 2.3%, 0.83% and 1.1%, respectively of the 2021 capital budget of \$250.3 million.

Road Widening Projects

AMPCO submits the two Roadway Widening projects are minor in comparison to the overall capital budget and do not have a significant influence on the operations of Alectra Utilities and should be considered ineligible for ICM treatment. The OEB expects a certain degree of project expenditure over and above the threshold calculation to be absorbed within the total capital budget.

Over the period 2015 to 2019, Road Widening projects have been delayed and the variance in actual spend compared to forecast has been 12.4% less.¹² In AMPO-3, Alectra Utilities lists 11 roadway projects in 2019 which did not start construction in 2019. This underscores that a certain degree of project expenditure over and above the threshold calculation can reasonably be absorbed within the total capital budget.

The OEB has made similar determinations on previous ICM projects that have a minor cost in comparison to the overall capital budget. In the OEB Decision on Alectra Utilities ICM request for 2019 rates, the OEB found that the ICM funding request of \$2.1 million to relocate feeders to the Barrie Transmission Station (TS) project was not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2019. The 2019 capital budget was forecast to be \$257.3 million, and the project was 0.8% of that total. The OEB found that Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term and no additional funding was approved.¹³

With respect to the Rutherford Road Widening project, AMPCO notes that there have been three mandatory segments related to road widening projects on Rutherford Road. The initial project regarding Rutherford Road relocations was from Westburne Drive to Confederation Parkway (2.2 km & \$2.4 million) and this work was completed in October 2019. The second project phase is from Westburne Drive to Jane Street (4.4 km & \$2.9 million) and this project is expected to be completed by the end of November 2020.¹⁴ Alectra Utilities did not apply for ICM funding in 2019 and 2020 for the first two projects on Rutherford Road. Alectra Utilities has not verified why the third project on Rutherford Road from Bathurst Street to Prince Rupert Avenue (2.8 km & \$2.9 million) is included as an ICM funding request in 2021 when previous planned work on Rutherford Road, which is also considered mandatory, was not put forward as an ICM.¹⁵

Goreway TS CCRA 10-year True up Payment to HONI

As part of a presentation to Alectra Utilities' Executive Committee on June 17, 2020, in respect of the 2021 Electricity Distribution rate ("EDR") Application¹⁶, Alectra Utilities provides a draft materiality

¹² AMPCO-2 (b)

¹³ EB-2019-0018 Decision and Order P15

¹⁴ SEC-13

¹⁵ Exhibit 4 Tab 1 Schedule 1 Attachment 6 P2

¹⁶ CCC-2-Attachment #1 2021 EDR Application Update June 17, 2020 P5

threshold calculation of \$2 million for the Brampton RZ and \$29.3 million for the PowerStream RZ as follows:

Table 2 - Materiality threshold calculation

Eligible Incremental Capital - 2021	BRZ	PRZ
2021 DSP Capital Forecast	33.5	108.7
Less: Materiality Threshold	31.5	79.3
Maximum Eligible Incremental Capital	\$2.0	\$29.3

Under “Key Assumptions”, Alectra Utilities indicates the above preliminary materiality threshold calculation (DRAFT) is based on the 2021 capital forecast included in the DSP and the project listing by RZ and the 2020 inflation factor of 2.0%, noting that the 2021-2025 capital expenditures are currently being reviewed and project prioritization will be completed in Copperleaf and may drive changes to the project listing by RZ.¹⁷

In the application, the 2021 DSP Capital Forecast was updated for the Brampton RZ from the \$33.5 million shown in the table above to \$42.16 million¹⁸ and for the PowerStream RZ was reduced from \$108.7 million shown in the table above to \$101.8 million¹⁹, presumably as a result of Alectra Utilities 2021 project re-evaluation and re-prioritization process. This update changed Alectra Utilities 2021 maximum eligible incremental capital calculation from \$2 million to \$10.7 million.²⁰ In May²¹ and August 2020²², Alectra Utilities presented reports to its Audit, Finance and Risk Management Committee indicating that Management continues to re-evaluate capital requirements as projects are reprioritized within 2020 and beyond and, based on the re-evaluation, ICM funding may be sought for 2021.

Alectra Utilities utilizes the CopperLeaf C55 system to provide a repository for all capital project business cases and to manage the entire investment portfolio for the company.²³ Using Copperleaf C55, Alectra Utilities determines the value of each candidate project resulting in investment portfolio optimization. As of 2020, Alectra Utilities plans and prioritizes capital investments across the entirety of its service territory. The CopperLeaf C55 process prioritizes the projects that deliver the best value for Alectra Utilities’ system, not for individual rate zones.²⁴

With respect to the Goreway TS CCRA 10-year true up payment to HONI, Alectra Utilities was previously aware this payment was required and included this cost in its 2020-2024 DSP and filed a Material Investment Business Case.²⁵ The Business Case indicates a 5 year true-up CCRA shortfall payment regarding the Goreway TS Expansion was completed in 2015 in the amount of \$681,000 and that Alectra Utilities planned to make a 10-year payment in 2020. The payment was not made in 2020 and Alectra

¹⁷ CCC-2

¹⁸Exhibit 2 Tab 1 Schedule 1 P4

¹⁹ Exhibit 2 Tab 1 Schedule 1 P13

²⁰ Exhibit 2 Tab 1 Schedule 1 P4

²¹ CCC-2 Attachment 2 – 20 May 2020 Report PUBLIC P7

²² CCC-2 Attachment 3 – 19 August 2020 Report PUBLIC P6

²³ EB-2019-0016 Tab 1 Schedule 2 P6

²⁴ Exhibit 2 Tab 1 Schedule 3 P8

²⁵ EB-2019-0016 DSP Appendix B Material Investment Business Cases P297

Utilities awaits the full ten years of peak data that will not be available until after the August 2020 anniversary date, and further negotiations with HONI, in order to finalize the payment.²⁶

Given the need and mandatory nature of the CCRA payment, it seems to AMPCO that Alectra Utilities sophisticated Copperleaf C55 tool, with capital investment optimization capability, would flag this cost as a priority for 2021, for Alectra Utilities as a whole, and as such it would be part of Alectra Utilities' revised project listing and core base budget for 2021 in any and all Copperleaf C55 project prioritization runs, and not the subject of an ICM funding request. The original Business Case indicates the project is rate base funded.²⁷

Further, in a Report to the Audit, Finance and Risk Committee dated May 20, 2020, Alectra Utilities states "Management continues to assess whether an ICM application may be included with the 2021 EDR application. In a recent decision for Burlington Hydro, the OEB indicated that the calculation of need must be based on the new CCA rules. Further, from the OEB's decision, it is clear that the OEB still considers Capital Cost Recovery Assessments ("CCRA") projects as good ICM relief candidates."²⁸

Alectra Utilities 2021 forecast capital budget is \$250.3 million. The forecast capital spend for 2020 is \$256 million, without incremental ICM funding.²⁹ Alectra Utilities is well aware of the need for the payment to Hydro One in 2021 as this cost was deferred from 2020. Given the mandatory nature of this cost and the fact that Alectra Utilities re-evaluated and re-prioritized its list of projects for 2020 and 2021, it's unclear why Alectra Utilities considers this cost to be unfunded through base rates in 2021. AMPCO questions if Alectra Utilities previous success in receiving funding for ICM requests related to CCRA costs³⁰ is driving Alectra Utilities proposal to include the CCRA payment cost as an ICM funding request in 2021 versus funding it as part of its 2021 base capital budget as a priority cost.

In considering the above, AMPCO submits the OEB should determine that the Goreway TS CCRA 10-year payment to HONI is not eligible for ICM funding. Alectra Utilities should be able to pace and prioritize its capital investments in 2021 across all rate zones in order to accommodate this known mandatory cost.

²⁶ Board Staff-21

²⁷ EB-2019-0016 DSP Appendix B Material Investment Business Cases P297

²⁸ CCC-2 Attachment 2 – 20 May 2020 Report PUBLIC P7

²⁹ AMPCO-1

³⁰ EB-2017-0024 Brampton RZ Pleasant TS True-Up \$6.8 million